



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

AMERICAN BANKING
AND
THE MONEY SUPPLY OF THE FUTURE.

It seems to me that the subject of banking, and its kindred topic, the currency, is often treated by those who are presumed to know most about both, in a manner altogether too complicated, too confusing and therefore discouraging to the reader or listener. The necessity for this I never could fathom, for each is quite as simple in its nature as the problems children solve at thirteen, and far less difficult to comprehend than the questions often put to Civil Service candidates. If the air of mystery and the element of obscurity indulged in so often is supposed to carry with it the semi-sanctity of unusual profundity which the teacher or speaker possesses, I think the effect is miscalculated, and that this obtuse, elaborate and muddy way of furnishing information is rather likely to cause the suspicion that the learned authority is rather deficient, than that he is overly equipped in the science and practice of that which he essays to enlighten others upon.

It will make itself clear from start to finish that the writer of this small contribution to the common stock of familiar information prefers the simple and direct rather than the complex and roundabout way of presenting his views upon an everyday and naturally simple and easily understood question.

FOUR PERIODS IN AMERICAN BANKING HISTORY.

Banking in the United States may be said to have gone through four epochs, beginning earlier than the Union itself, and ending with the adoption of a more complete and efficient system than our present has come to be.

Prior to the year 1781 we can scarcely say we had much, if any, banking as we now understand it, for with the Bank of North America, founded December 31, 1781, and

still in existence at Philadelphia, the idea of banks uniting the functions of circulation, deposit, exchange and discount may fairly be said to begin. The earliest so-called banks were in reality not banks but a series of issues of colonial notes by the separate Colonies. The history of the disasters accompanying and following such issues would of itself make a fair sized-pamphlet.

OUR FIRST BANKING PERIOD.

The first epoch then may start with the conception of the Colman Bank, which really never got farther than that, and which carries us back to the year 1715. The Land Bank, organized in 1739, had back of it no capital, but did business upon mortgages given upon their estates by the stockholders. Its failure need hardly be told and the suffering it entailed upon the stockholders and the public was a matter of notoriety down to the time of the Revolution. The Specie Bank, while its name was a good one, proved, largely because it never had but a trifle of specie, a failure, and wound up its affairs so quickly that it has not left much of an impression upon the early financial history of the colonies.

OUR SECOND BANKING PERIOD.

The second epoch begins then with the Bank of North America and properly ends, it seems to me, in 1838, when the State of New York established the idea, for the first time in any systematic way in the history of the world, of securing circulating notes by the deposit of collateral. The Massachusetts Bank was the next great bank, historically speaking, and it was chartered in 1784, and following this a bank was chartered in New York and another in Maryland. In 1791 the first bank of the United States was chartered by Congress and its capital of \$10,000,000 was partly made up of cash and partly, in fact, mainly, of bonds of the United States. It is likely that by the year 1812 there were as many as 125 banks in the United States in more or less active operation, though no perfectly accurate statement in this matter can be now made. The cardinal weakness in the banking of this

second epoch was the lack of security for the noteholder and the total want of ordinary business prudence in maintaining proper specie reserves for the redemption of circulating notes, so that the general suspension of specie payments in 1814, which, however, did not include the New England banks, was in no way surprising. The charter of the first bank of the United States expired in 1811. In 1816 the second bank of the United States was chartered, and it began business with the opening of the year 1817, and had a capital of \$35,000,000, the Government taking \$7,000,000 of its stock. On starting it had less than \$2,000,000 of specie, the balance consisting of bonds, stocks and the notes given to it by its stockholders in payment for their subscriptions to its capital. This bank had a checkered existence, was part of the time insolvent, but ran along until its charter expired in 1836, in a kind of haphazard, reckless manner, and those who read its history now can scarcely decide whether its capital was oftener employed in business or in politics. It never actually failed, as it was merged into The Bank of the United States, chartered by the State of Pennsylvania. This last bank failed most disastrously; and when it suspended in October, 1839, a large share of its stock was found to be owned in England, while its management was wholly American, and savored more of speculation than business. When it finally and forever closed its doors in February, 1841, it left behind it an odor of rascality and incompetence which lasted for a generation.

The history of banking in the several States during this second epoch reads like a romance, and no portion of the political history of the country is more interesting, as it covers the entire period of the struggle between the Bank of the United States and the Whigs on one side and President Jackson and the Democratic party on the other. During this epoch the gold dollar of the United States was established while Mr. Jackson was in office, at twenty-three and one-fifth grains (23.20 grains) of fine gold. The great Democratic battle for honest money was won during this same period, and it is back to the history of this great fight we turn when as Democrats

we contend for an honest dollar. It is well to remember that since 1873 nothing in the United States can be called an honest dollar which is not promptly convertible into a gold dollar of 23.20 fine or its equivalent.

THE THIRD PERIOD IN AMERICAN BANKING.

The third epoch in American banking begins with the passage by the New York Legislature, in 1838, of a bill requiring the securing of bank notes by the deposit of stock. This marks the greatest change in our banking history. It revolutionized the theory and practice of banking, not only in America, but in England, for in 1844 the English Bank Act practically established the same idea, and to this day Great Britain has shown no disposition to depart from it. From 1838 on, New York has had an admirable banking system, and while her banks have been carried down into temporary suspension by the recklessness of methods West and South, noteholders have in the end realized full value for notes regularly issued in New York after the year 1838. If other States had followed the example of the State of New York the wild and furious periods of speculation which culminated in the suspension of 1857, and which we so quickly overcame, would have been avoided and our financial history in the fifties would not be clouded with the "wild-cat," "red-dog," "stump-tail," "coon-box" bills which few remember much about in any accurate way, but which exist in a kind of indefinite cobweb of recollections only to produce frequent spasms of financial nightmare during political campaigns.

THE FOURTH CHAPTER IN AMERICAN BANKING.

The national banking system which begins the fourth epoch in our banking history began in 1863, but properly speaking, it should date from 1865, when the ten per cent. tax upon State bank circulation forced all banks of issue into the national system. Just here we must not fail to remember that at this time (1865) there was practically no such thing as "wild-cat" money, and the State bank notes and State

banks themselves were so popular and had such a strong hold upon the business public, and were in such high favor with the people, that it required the most enormous rate of taxation ever known in history and the most arbitrary commercial law ever passed by Congress to force the notes of State banks out of circulation. In this connection, too, it is a most significant fact that out of the great sum of \$150,000,000 of State bank notes in circulation, practically, all of it was redeemed in full and without entailing loss upon the holders. A still more striking commentary upon the excellence of State bank-note circulation is the fact that for years after the passage of the National Bank Act the notes of a number of State banks were worth far more than those of any national bank. You could buy with one dollar of State bank money as high as two dollars, and even two dollars and eighty cents in national bank notes in 1864. In fact, from 1861 on, until they entirely disappeared from circulation, the notes of a number of State banks were always very much more valuable than the legal-tender notes of the United States. This is especially worthy of mention when the ignorant, the hasty and the prejudiced cry out against all bank notes issued under State authority.

The national banking system had little that was novel in it, practically nothing which was not fully known to every one familiar with the banking systems of New York, Ohio and Indiana. It consisted of the issue of notes by banks incorporated by the United States, all of which bore the guaranty of the United States, government bonds being lodged with the United States as collateral security. This system of banking has been eminently satisfactory and extremely useful to the public, and was of great advantage in raising and maintaining the public credit between 1863 and 1866. The chances are that if Government bonds were in abundant supply now that the most trifling changes in the system would be needed to render it continuously satisfactory to the nation. As it is, however, the rapidly decreasing supply of United States bonds, their high price and the low interest

return they give the banks, all point to the extinction of bank-note circulation in 1907 and its gradual and yet rapid reduction meanwhile.

We are, therefore, close to the end of the fourth epoch in American banking, and may properly consider what should be and what is likely to be the fifth.

OUR BANKING FUTURE.

In entering upon this subject it is necessary, I think, to lay down some general principles controlling the currency, and the relation of our National Government to it, before presenting a plan which will provide for the establishment of these principles, and upon them erect a banking system which will enable us to forecast what the money supply of the future is likely to be.

I accept it as a fixed principle that we can only have at any one time a single standard of value, and need not stop to argue the matter with such an audience as this is addressed to. We must choose between gold, the standard of enlightened nations like England, Germany and France, or, silver the standard of Mexico, South America, China, Africa, and, for the present, India. I assume that we shall decide permanently in favor of the Democratic gold dollar 23.20 grains fine as the ultimate standard of the United States. We are justified in this by the action of Congress last winter on the free coinage of silver and its present attitude in connection with the crazy speculation in bar silver which has gone on since 1878 under the Bland bill of 1878 and the Act of 1890, so often called the Sherman bill, but unjustly so, as it never at any time reflected the views of Mr. Sherman except as a compromise measure. Considering it settled then that gold and gold alone is to be the permanent, as it has been since 1873, the sole legal standard of value in the United States, it follows that all other forms of money, whether of paper or coin, must always be kept at par with gold and be promptly redeemable in it.

The next principle to be recognized is that the issuing of promises to pay by the United States, intended to circulate

as money, is improper, never should have been adopted, has cost us, directly and indirectly, half as much as the war of the rebellion, and is to-day the cause of our having in the treasury over 416,000,000 ounces of silver, which has cost the nation over \$80,000,000 more than its present market value and probably over \$200,000,000 more than we shall ever realize for it.

Just how the present legal tender paper circulation of the United States shall be recalled and paid off and the Government got back to where its financial functions will be limited to the collection of money by taxation and its disbursement for legitimate national expenses, this is not the place to speculate upon, nor this the time to make recommendations. Suffice it to say, the Government's sole relation to business, and its only connection with the money market and the supply of currency, should consist in controlling wisely and honestly the coinage, and its functions here should be limited to the easy task of coining, without limit, gold, which is our standard of value, and in limiting the coinage of silver to the sum which experience shows we can use, and which will not vary much from one standard silver dollar for each soul in the country.

The great curse to business, as well as the principal drawback to enterprise, during the last thirty years—except, of course, the war from 1861 to 1865, and our ignorant and selfish tariff system—has been the control of Congress over the volume and the value of the money supply of the country.

A COMMONPLACE BUT MOST EFFICIENT BANKING SYSTEM.

Accepting the few cardinal, strikingly simple and manifestly wholesome principles just stated, the bill quoted below, and known as "H. R. No. 9770," presents a solution for the financial questions which will then remain to be settled, and if once made the law of the United States will require little change or alteration afterward. Under the operation of a law like this business would be independent of Congress, and the supply of money in the United States would at all times

be ample and also automatic, and it would therefore be marked by an elasticity and flexibility in volume which it has been a stranger to ever since the Government began to interfere with, and control, our money market, as it did on the outbreaking of the Civil War in 1861.

Little explanation of the provisions in the bill will be needed by even the least professional or practical reader, and it is submitted without further comment, except that which follows it and which is confined to answering the objections made to it in some quarters. It may be proper to remark that, with the Government confining itself to its legitimate duties, it is quite clear that under this law the currency of the United States would consist of gold, and of national and State bank notes, all promptly redeemable in gold, and of silver, nickel and copper coins for making change.

52D CONGRESS,
2D SESSION.

H. R. 9770.

IN THE HOUSE OF REPRESENTATIVES.

DECEMBER 7, 1892.

Referred to the Committee on Banking and Currency and ordered to be printed.

A BILL

To provide for the issue of circulating notes of National and State banking associations upon securities other than United States bonds, for the taxation of the circulating notes of National banks, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the United States shall not hereafter guarantee the payment of circulating notes issued by any bank, banking association, or private banker.

SEC. 2. That there shall be no limit to the amount of circulating notes which any national banking association may issue, except that such notes shall at no time exceed ninety per centum of the par value of the bonds deposited to secure the same by such association.

SEC. 3. That every national banking association, after the same has been fully organized, may at all times have on hand, in the custody of the Comptroller of the Currency, such amount of its circulating notes ready for issue upon the deposit of the securities, as hereinafter

provided, with the Treasurer of the United States as shall not at any time exceed the par value of its paid-up capital stock.

SEC. 4. That State banks, State banking associations, and bankers expressly authorized under State statute to issue circulating notes shall pay no Federal or United States tax upon such notes : *Provided*, That all such notes are secured in the same manner and to the same extent as the notes of national banks, that is, by bonds of the precise character described in this bill, which bonds must be duly deposited with a properly designated State officer in the State in which the issuing bank, banking association, or banker is domiciled ; and every national banking association shall pay a tax upon the circulating notes issued by it and in circulation at the rate of one-fifth of one per centum per annum upon the average amount of the same, not exceeding ninety per centum of the capital stock actually paid up in cash, one per centum per annum upon the average amount of such notes in excess of ninety per centum and not exceeding one hundred and eighty per centum of the said capital, and ten per centum upon the average amount of such notes in excess of one hundred and eighty per centum of said capital. Such taxes shall be payable semi-annually, and shall be collected by the internal revenue collectors of the United States.

SEC. 5. That in addition to the United States bonds now required by law to be deposited with the Treasurer of the United States to secure the circulating notes of national banking associations, the Comptroller of the Currency is hereby authorized and required to accept registered bonds issued by any railroad corporation or city in the United States, and deposit the same with the Treasurer of the United States in behalf of any such association as security for its circulating notes, subject to the following restrictions :

First.—The principal and interest of all such bonds shall, in expressed terms, be payable in gold coin of the United States.

Second.—All such bonds must have been continuously listed upon some regular stock exchange, located in a city of the United States having a population of not less than five hundred thousand, for at least five years.

Third.—No bond shall be accepted upon which payment of interest has at any time been in default, or which at any time within three years prior to the date of its offer for acceptance has sold publicly upon any stock exchange where it was listed for less than one hundred and five cents on the dollar of its face value.

Fourth.—No bond shall be accepted if the total tax levy of the city issuing it exceeds two per centum per annum.

Fifth.—No railroad bond, not regularly secured by mortgage upon the roadbed and track, shall be accepted.

Sixth.—No association shall be permitted to have more than twenty per centum of its bonds on deposit of the issue of any one railroad corporation or city.

Seventh.—Whenever any class of bonds on deposit has been publicly sold below par for a period of thirty days upon any stock exchange where listed, the Comptroller shall require a bond to be substituted which will in all respects meet the requirements of this act.

Eighth.—Whenever any railroad corporation which was paying dividends upon its stock when its bonds were accepted by the Comptroller ceases to pay dividends, the substitution of other and proper bonds shall be required.

SEC. 6. That the Comptroller, with the consent of the Secretary of the Treasury, shall have the right to reject any class of bonds he sees fit, and to require proper substitution for any already on deposit considered undesirable.

SEC. 7. That no association shall hereafter be required to keep on deposit with the Treasurer of the United States any further security or fund for the payment of its circulating notes than those provided for and required by this act.

SEC. 8. That any president, vice-president, manager, secretary, treasurer, or other officer of any interstate railroad who shall knowingly issue, or permit to be issued, any false statement of the earnings, expenses, or condition of the road he is officially connected with, shall be subject to indictment and trial in any court of the United States, and if found guilty shall be imprisoned at hard labor for not less than ten years nor more than twenty years, and be subject to a fine in addition of not more than one hundred thousand dollars.

SEC. 9. That for the further protection of the holders of circulating notes, the United States shall have a first lien upon the assets of each national banking association for the payment of its notes, in addition to the bonds deposited with the Treasurer of the United States as security.

SEC. 10. That a fund of one million dollars shall be created out of the taxes collected under this act from national banking associations and shall be maintained from the same source, and if the proceeds of the bonds deposited to secure the circulating notes of an association and the first lien upon its assets together are insufficient to redeem the outstanding notes of the association, then the deficiency shall be made good from this fund.

SEC. 11. That the notes of no national banking association shall be a legal tender in payment of any claim due to the United States, and when a national banking association has been placed in the hands of a receiver, its circulating notes shall cease to be received in payment of any obligation due and payable to the United States.

SEC. 12. That all parts of existing laws which are in conflict or inconsistent with the provisions of this act shall be, and hereby are, repealed

OBJECTIONS CONSIDERED.

The first objection made to the bill is that the notes would be open to the cry of "wild-cat," due to insufficient security. This falls to the ground when it is found that no notes of any bank in the world, except possibly those of our national banks (whose present security must disappear with the payment of the debt of the United States), are as amply secured. The notes of the Canadian banks, so justly esteemed, have no such security behind them; those of the Bank of France have no special security; those of the Reichsbank, of Germany, and the other thirteen banks of issue have none until their volume exceeds 385,000,000 marks (\$91,630,000).

The security provided by this bill for all notes, State and national, would be on an average (measured at all times by gold) twenty per cent. greater than that pledged for the notes of the Bank of England. The market value in gold of the security proposed (and which would be behind the notes of even the most remote or inaccessible bank) would be about double the average gold value of the security which was behind our national bank notes—in the shape of United States bonds—from 1863 to 1865. It hardly seems necessary to say more in this connection except to remark that you will notice it does away with the improper use of the Government guaranty upon circulating notes, which is as useless on a properly secured bill as it has always been improper. One thing more, however. If the notes of all banks in the United States had been so secured ever since railroading and modern business methods made it possible, no holder of a note (State or national) in all this period would ever have lost a farthing! If this had been the law in 1860 it is hardly necessary to say the war might have been carried on upon a gold basis, not a dollar of legal-tender paper need have been issued and the direct cost of the struggle would have been cut almost in two; and if this had been the

law we would have avoided that constant interference of the Congress of the United States with the volume of the currency, which has kept the business of the country at sixes and sevens most of the time since 1866. Again, if this had been the law the United States would not be the unhappy owner of silver costing over \$429,000,000, for all of which it owes its notes, all practically payable in gold, while not except by a miracle could it get \$200,000,000 for this load of pig metal. We should have been saved a loss of say \$225,000,000 yet to be made up by taxing the people, for all of this would have been avoided had this simple, safe, equitable and efficient bill been the law of the United States.

The next criticism is that it would provoke counterfeiting and give us too great a variety of paper money. To this I answer that counterfeiting in 1865 had dwindled to a point where it was an unimportant feature, notwithstanding the great variety of bills in circulation. Since 1865 we have wonderfully improved our bank note engraving and we are so superior in this direction to Europe, where they suffer little from counterfeiting, even with their poorly executed notes, that we need borrow no trouble on this score.

Again, learning from the practice of the United States, it is likely that each State would have one form of note and every State and all of its banks would be constantly on the lookout for, and quick in the punishment of, counterfeiting. While the law provides, as it should, and as any fair, just measure must, for State bank circulation, in the end it is probable that our paper circulation under this law would be mainly, perhaps exclusively, that of national banks, because with the rate of tax placed on circulation by the bill, capital would find it more profitable to organize under the national than under any State bank system ; for few, if any, States could meet the expenses attending a local system without taxing the circulation of their own banks more than the United States need that of the national banks. Add the undoubted fact that national banks would enjoy a higher general credit than State banks, and we see that the passage

of this law (after the United States had retired its paper promises to pay) would result in the simplification of our paper currency and still further remove it from the dangers of counterfeiting. And, speaking of counterfeiting, the real, present and future great danger of counterfeiting is found in our silver dollar, for any fairly expert mechanic can make a silver dollar in all respects, in weight, fineness and appearance, equal to the United States standard dollar for not over sixty-six cents to-day. If we go on cheapening the cost of turning out silver he will be able to make a dollar very much cheaper. To-day it is probable that the actual cost of a spurious silver dollar to some of the Creede, Colorado miners, would not be over eighteen to twenty cents, while some Colorado miners could produce silver dollars as heavy, of as pure material, and quite as perfect otherwise, as the United States standard dollar, at not over eleven cents each.

The charge made that notes issued under this bill would prove objectionable on account of inconvenience in their not being current everywhere, or that domestic exchange would rise in consequence, becomes so very baseless when we remember that to have even local or, if you will, a purely home circulation would require them to be kept there at par with other money, that I dismiss it rather than take your time to answer it.

A PREDICTION.

Finally, I make the prediction, with confidence, that within fifteen years after this bill becomes the law of the United States its leading features will be adopted by a number of other nations, and that inside of a half century it will practically be the banking law of the commercial world, and that long before that, if we continue to keep gold as our sole standard of value, the world will discard the clumsy pound sterling as its measure of value in international trade, and that the 23.20 grains fine gold dollar of the United States of America will be the basis upon which the trade of the world at large will be conducted.

I crave for the evident lack of care in the preparation of this article the indulgence of those who read it, and enter the plea of justification, inasmuch as it was written when crowded day and night with public duties which I could not put aside.

MICHAEL D. HARTER.

House of Representatives.